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ANNUAL COMPLIANCE REPORT

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Docket No. ACR2011

**COMMENTS OF L.L.BEAN, INC.**

(February 3, 2012)

L.L.Bean, Inc. hereby submits its comments addressing the Postal Service's Annual Compliance Report filed on December 29, 2011. Founded in 1912, L.L.Bean is one of the oldest catalog distribution companies in America. For a century, using the mails to reach customers with its catalogs has been a cornerstone of its growth. L.L.Bean is a substantial user of Standard Mail, mailing its catalogs predominantly at Carrier Route postal rates and also at Standard Mail Flat and higher-density rates.

Within Standard Mail, the pricing of the below-cost Standard Flats product and its implications on the health of the catalog industry has been a central focus in the last three Annual Compliance Review proceedings. The Postal Service's filing in this ACR proceeding shows that the cost coverage for Standard Mail Flats has again fallen and is now below 80 percent; and that the annual losses have increased, aggregating more than \$2 billion over the last four years. While this is a matter for concern, L.L.Bean believes that it should be viewed within the broader context of the catalog industry as a whole.

According to a recent survey conducted by the American Catalog Mailers Association (ACMA), only one-quarter to one-third of catalogs are mailed as Standard Flats, a product on which the Postal Service loses money. By contrast, two-thirds or

more of all catalogs are mailed as Carrier Route, a product that generates a positive contribution.<sup>1</sup>

In this context, the Postal Service's single-paragraph explanation of its Standard Flats pricing is disappointing. All it does is repeat its worn concern about "placing an undue burden on the already fragile catalog mailing industry, which depends heavily on Standard Mail Flats" USPS Annual Compliance Report at 28-29. Yet the fact that the catalog industry makes substantially greater usage of the Carrier Route product clearly calls into question the Postal Service's core premise that the catalog industry "depends heavily on Standard Mail Flats." Missing is any indication that the Postal Service intends to take a fresh look at its pricing approach for catalogs.

The need for a reassessment of pricing, particularly with respect to the relative prices for Standard Flats and Carrier Route, is now apparent. Over the last four years, the Postal Service's pricing of Carrier Route has been the opposite of Standard Flats, with larger increases in each of the four price adjustments under the Postal Accountability and Enhancement Act (PAEA). Cumulatively, the percentage increase for Carrier Route has been double that for Standard Flats, and even greater than the classwide CPI-based increase:

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<sup>1</sup> See L.L.Bean Comments, Docket No. R2011-3 at 3, citing an ACMA bulletin that can be found at: <http://www.catalogmailers.org/clubportal/clubdocs/2129/ACMAAlert-NewRatesAnnounced,Oct.18,2011.pdf>.

Standard Mail Price Adjustments under the PAEA

<u>Docket</u>	<u>Standard Flats</u>	<u>Carrier Route</u>	<u>Standard Mail Class</u>
R2008-1	0.86%	2.99%	2.88%
R2009-2	2.31%	4.31%	3.78%
R2011-2	0.84%	1.38%	1.74%
R2012-3	2.21%	2.43%	2.04%
Cumulative	6.35%	11.55%	10.84%

These disparate above-average increases on the profitable Carrier Route product that accounts for the great majority of total catalog volume are inconsistent with the Postal Service's stated concern about "placing an undue burden" on the catalog industry as a whole. Moreover, Carrier Route is far more heavily used by catalogers in prospecting for new customers. Catalogs sent to prospects typically generate a lower response rate and return-on-investment than those to current customers. Unlike the "high value" customer addresses to which a cataloger will continue to mail even in hard times, prospect mailings to non-customers consequently have a higher postal-price sensitivity. The Postal Service's perverse pricing thus discourages prospecting and impairs the ability of catalogers to expand their businesses – undermining the Postal Service's objective of turning the catalog industry into "a growth segment in its business over the long run." See USPS Compliance Report at 29.

ACMA has also come to question the Postal Service's approach to catalog pricing. In its comments on the latest USPS price adjustment, ACMA noted that the Postal Service imposed a larger percentage increase on Carrier Route than on Standard Flats. As ACMA stated:

"In fact, we might have expected the increase amounts applied to Carrier Route and Standard Flats *to have been reversed*, and we wonder why Carrier Route received a higher increase percent."  
ACMA Comments, Docket R2011-3, at 3 (emphasis added).

L.L.Bean agrees that the time has come for the Postal Service to reverse its pricing of Carrier Route and Standard Flats. Encouraging the use and growth of Carrier Route mail through moderated pricing will be more beneficial to the industry in both the short and long run. From the Postal Service's perspective, it will also send the correct pricing signals to the marketplace – enhancing the growth of a profitable product while transitioning a below-cost product to full cost coverage.

Because the Commission's prior noncompliance determination in Docket No. ACR2010 is currently under judicial review, it is not necessary for the Commission to here again issue another formal noncompliance determination. If upheld by the Court, that earlier determination will become effective and binding on the Postal Service. Nevertheless, the Commission should reaffirm the factual basis for that determination. Since ACR2010, the Standard Flats cost-coverage gap and losses have widened. The need to rebalance the pricing of Standard Flats and Carrier Route is more pressing now than ever.

Respectfully submitted,

/s/

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